



# VERMONT LEGISLATIVE Joint Fiscal Office

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## Fiscal Note

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### **H.454 – An act relating to transforming Vermont’s education governance, quality, and finance systems**

**As recommended by the House Committee on Ways and Means, Draft 4.1<sup>1,i,ii</sup>**

#### **Bill Summary**

**T**his bill would make numerous changes to Vermont’s statewide education system and education funding system. It would expand the Commission on the Future of Public Education, require a review of the State Board of Education’s rules, implement the State Aid for School Construction Program and Advisory Board, and require the Agency of Education (AOE) to draft a three-year Special Education Strategic Plan. It would also implement class size minimums, establish legislative intent for school size minimums for certain grades, implement a transition of tuition eligibility, and amend statute to recalculate the amount of tuition that can be paid to a receiving school.

***This bill would make numerous and significant changes to Vermont’s statewide education system and education funding system.***

The bill would repeal most of Vermont’s statewide education finance formula and establish a new funding formula and statewide property tax structure. This would include the creation of a foundation formula with supplemental district spending, four property classifications for statewide education property taxes, a repeal of the property tax credit, and the implementation of a homestead exemption. The bill would also establish Regional Assessment Districts.

As recommended by the Committee on Ways and Means, the bill also contains several administrative provisions related to minimum thresholds for tax sales (as recommended by the Act 106 (2024) Working Group on Vermont’s Abatement and Tax Sale Processes), property valuation hearing officer compensation, and a technical correction regarding property tax credit late fees.

#### **Fiscal Impact**

Since much of the bill is effective on July 1, 2029 and rests on future policy decisions, its overall fiscal impact is unclear. However, implementation of many provisions will likely have fiscal impacts in future years.

There are some known fiscal impacts of the bill. Table 1 shows the direct fiscal impacts of the bill in fiscal year 2026:

<sup>1</sup> *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

**Table 1: Fiscal Year 2026 Fiscal Impacts in H.454**

Sections	Description	FY 2026 Cost	Source of funds
<b>Section 2:</b> Commission on the Future of Public Ed	Per diems for the five new non-voting members	\$9,000	Cost to AOE (no appropriation made in bill)
<b>Sections 6 and 26:</b> State Board of Education rules review	Appropriation to facilitate the revision of the Board's rules	\$200,000	One-time General Fund appropriation to AOE
<b>Section 10:</b> State Aid for School Construction Program (AOE staff)	Estimated cost for three AOE positions to staff the program (hired prior to program start). These costs required an on-going appropriation.	\$450,000	Neither positions nor appropriations made in bill
<b>Section 11:</b> School Construction Advisory Board	Per diems for the eight board members for a maximum of six meetings	\$3,000	Cost to AOE (no appropriation made in bill)
<b>Sections 32 and 33:</b> AOE Special Education Strategic Plan (AOE staff)	Appropriation for a new, permanent position at AOE to support Strategic Plan development. This is an on-going cost.	\$150,000	Base General Fund appropriation to AOE
<b>Section 93:</b> Property Valuation hearing officer compensation	Compensation adjustment for part-time hearing officers.	\$20,000	Base cost to Department of Taxes (factored into the Department's budget)
<b>Total Costs</b>		<b>\$832,000</b>	
<b>Total Appropriations Made</b>		<b>\$350,000</b>	

## Background and Details

The following sections may have a fiscal impact or fiscal considerations. The following is organized by section number of the bill.

### Section 2: The Commission on the Future of Public Education

Effective on passage, Section 2 adds five additional, non-voting members to the Commission on the Future of Public Education. These members would be appointed by July 15, 2025 and would compose the School Boundary Subcommittee of the Commission. The Subcommittee would be charged with recommending not more than three school district boundary proposals to the General Assembly by December 1, 2025. The district boundary subcommittee shall have the assistance of the Agency of Digital Services, Vermont Center for Geographic Information, which may also retain the services of one or more independent third parties to provide facilitation and mediation services to the subcommittee.

The new non-voting members would be eligible for the per diems and expense reimbursement pursuant to 32 V.S.A. § 1010. JFO estimates this would increase annual Commission costs by approximately \$9,000. There is no appropriation in the bill for these costs, which would be borne by AOE. Originally, the Commission was funded by a \$200,000 General Fund appropriation made to AOE in fiscal year 2024. Currently, this appropriation has approximately \$53,000 spending authority remaining. It is likely that AOE would need an additional appropriation to successfully assist the expanded Commission with its work.

### Section 4: Class Size Minimums

Effective July 1, 2026, Section 4 would establish class size minimums for grades K-12 in Vermont public schools. These sizes would apply to most school classes, but there would be multiple exclusions for certain types of courses and subjects. The State Board of Education could also grant a waiver if it determines that a school cannot meet the standards due to geographic isolation or if it's developed a plan to meet them.

The average minimum standards would be as follows:

- Kindergarten: 12 students;
- Grades 1-4: 15 students;
- Grades 5-12: 18 students; and
- Multiage classrooms for grades K-8 would be limited to two grades per classroom.

The fiscal impact of this section cannot be estimated. While implementing average class size minimums may reduce the number of teachers, the extent to which this would take place is unclear and will vary on a case-by-case basis. Class size minimums apply to the number of students within a class and don't necessarily affect student to teacher ratios. The potential exemptions to the minimum standards further reduces JFO's ability to estimate a fiscal impact.

### **Section 6: State Board of Education Rules**

Effective July 1, 2025, Section 6 would require the State Board of Education to submit a report by December 1, 2026 to the House and Senate Committees on Education with its recommendation for rules to eliminate and a plan for updating rules that are still necessary. This would include the order in which the Board proposes to update the rules and any associated estimated costs.<sup>2</sup>

### **Section 7: School Size Intent**

Section 7 includes intent language that schools operating grades 6-12, or any subset of those grades, are required to have a minimum enrollment of 450 students. Any potential fiscal impact of a minimum school enrollment standard would depend on the details of future policy. For context, 2023 enrollment data provided from AOE shows Vermont has approximately 180 public schools that wouldn't meet the minimum.

Short-term, the consolidation or closure of schools that don't meet a minimum enrollment standard could result in increased capital costs to build or refurbish suitable spaces for those schools' students. The exact cost would need to be determined on a case-by-case basis, based on the size and condition of a district's building inventory.

Long-term, the consolidation or closure of these schools could lead to cost savings. While the exact amount cannot be estimated, this may lead to economies of scale.

### **Sections 10 – 14: State Aid for School Construction**

Sections 10 through 14 pertain to State aid for school construction.<sup>3</sup> Act 149 (2024) created a State Aid for School Construction Working Group to study and design a plan for a statewide school construction aid program. These sections reflect many of the Group's recommendations. They would:

- Create a State Aid for School Construction Program administered by AOE to provide grants to schools within the range of 20% to 40% of debt service costs for eligible construction activity, plus emergency aid grants (up to 30% of a project costing \$300,000);
- Create a State Aid for School Construction Advisory Board to advise the Agency on the Implementation of the School Construction Program. The Board would sunset on July 1, 2035;
- Create a School Construction Aid Special Fund;
- Transfer rulemaking authority pertaining to school construction from the State Board of Education to AOE; and
- Repeal the existing, dormant school construction aid program that was previously funded with general obligation bonds through the Capital Bill.

Section 14 would revise the State Aid for School Construction Program by adopting a debt service subsidy

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<sup>2</sup> A \$200,000 appropriation for this work is included in Section 26 of the bill.

<sup>3</sup> Sections 10, 13, and 14 are effective July 1, 2026; Sections 11 and 12 are effective July 1, 2025.

model, where the State would provide grants of 20% to 40% of a school's annual debt service amortization payments (principal plus interest) for eligible construction expenses. This would shift a portion of the costs associated with school construction financing out of local school budgets.

Like a similar program in Rhode Island, the proposed aid program would generally work as follows:

- A school issues bonds to finance school construction activity and is responsible for paying debt service costs;
- The State provides grants to a school as a percentage of each year's debt service payments for the proportion of the cost attributed to eligible projects;
- Grants would reduce cost of debt service that would otherwise be reflected in local school budgets and paid for through property taxes; and
- Grants would be funded through appropriations from the School Construction Aid Special Fund, not through general obligation bonds.

Additionally, Section 14 would permit the Secretary of Education to grant aid for a project deemed to be an emergency in the amount of 30% of eligible project costs, up to a maximum eligible total project cost of \$300,000 (for a maximum grant of \$90,000). Under current law, the maximum total project cost is \$100,000.<sup>4</sup>

AOE has indicated that administering the School Construction Aid Program would likely require three full-time positions, which JFO estimates would likely cost the General Fund approximately \$400,000 to \$450,000 annually, plus potential additional resources to fulfill the responsibilities assigned to the Program. Section 21 would require AOE to submit a report by December 1, 2025 that would include, among other things, recommended position descriptions and job duties related to school construction. A needs survey that would be required to be conducted at least every five years would also likely represent a cost to the General Fund, although this amount is not currently known. The bill neither creates nor funds the positions and associated administrative costs to implement the program. It also does not carry any appropriations for State aid for school construction.

AOE would be responsible for administering this program. Section 16 would transfer rulemaking authority pertaining to school construction and capital outlay from the State Board of Education to AOE. Among other powers, AOE would have the authority to adopt rules that specify a point prioritization methodology and bonus incentive structure for the Program. Section 10 outlines numerous administrative responsibilities for AOE, including conducting the aforementioned needs survey at least every five years to ascertain construction, reconstruction, maintenance, and other capital needs for all public schools.

Section 11 would create an eight-member State Aid for School Construction Advisory Board charged with advising AOE on the implementation of the Program, including the adoption of rules, setting of statewide priorities, criteria for project approval, and recommendations for project approval and prioritization. Four ex-officio members (or their designees) would serve on the Advisory Board: the State Treasurer, the Commissioner of Buildings and General Services, the Executive Director of the Vermont Bond Bank, and the Chair of the State Board of Education. Additionally, four public members serving four-year terms would be appointed by the General Assembly. The Board would meet not more than six times per year and would be supported administratively by AOE. Section 12 would repeal the Board on July 1, 2035.

Board members would be entitled to per diem compensation and reimbursement of expenses as permitted under 32 V.S.A. § 1010. This would result in an estimated annual cost of up to \$3,000 to AOE. There is no appropriation for this cost in the bill.

The School Construction Advisory Board would be established on July 1, 2025, while the State for School

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<sup>4</sup> See 16 V.S.A. § 3448(d)

Construction Program would resume on July 1, 2026.

Section 13 would create a School Construction Aid Special Fund, to be administered by AOE. Monies from the Fund would be used to support:

- Aid to school construction projects as outlined in the bill;
- Grants through the Facilities Master Plan Grant Program;<sup>5</sup>
- Administrative costs for the State Aid for School Construction Program; and
- Emergency aid as outlined in Section 14 of the bill.

The Special Fund would be funded by any amounts transferred to it by the General Assembly, the excess funds from the Supplemental District Spending Reserve, and any interest it earns.

Monies from the Fund would support aid grants and program costs. There are no transfers made to or from the Fund in this bill; those would be made in future annual appropriations acts (“Big Bills”). Sections 10 and 14 would, among other things, require AOE to submit an annual school construction funding request as part of its budget submitted to the Governor.

Future costs for State aid for school construction will be determined by the specific projects that are awarded aid through the Program and the cost and structure of the bond amortization schedules to finance specific projects. The overall needs of school facilities, however, are substantial and significant. The 2024 School Construction Aid Taskforce Report estimated that the current portfolio of school facilities required \$300 million per year of investment for 20 years to replace systems that have reached the end of their useful life.<sup>6</sup>

### **Section 18 and 19: Tuition to Approved Schools**

Section 18 would add qualifiers for permitted payments of tuition – a school district shall not pay tuition to any entity unless it is:

- a public school located in Vermont;
- an approved independent school located in Vermont that has at least 51% of its student enrollment composed of students attending on a district-funded tuition basis during the 2024/2025 school year and complies with the minimum class size requirements (independent schools remain eligible for the same geographic isolation waiver as public schools);
- an independent school meeting education quality standards;
- a tutorial program approved by the State Board;
- an approved education program;
- a public school located in another state; or
- a therapeutic approved independent school located in Vermont or another state or country and is approved under the laws of that state or country.

Section 19 would permit the payment of tuition for students currently enrolled in all independent schools to continue until those students graduate.

Because any fiscal impact would depend on future behavior and decisions, JFO cannot estimate the potential costs or savings of this section.

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<sup>5</sup> See 16 V.S.A. § 3441

<sup>6</sup> <https://legislature.vermont.gov/assets/Legislative-Reports/edu-legislative-report-school-construction-aid-taskforce-2024-1.pdf>



**Section 26: State Board of Education Appropriation**

Section 26 would appropriate \$200,000 from the General Fund to AOE in fiscal year 2026 to provide the Agency with resources to review and update the Board's rules.<sup>7</sup>

**Section 27: Tuition Calculation**

Section 27 would amend the determination of the amount tuition a district pays to a receiving school. The tuition would be equal to the base amount multiplied by the weighted pupil count attending the school.<sup>8</sup> JFO cannot estimate the fiscal impact of this section due to data limitations and outstanding policy decisions. The fiscal impact will depend on future district configurations and the number of students tuitioned to receiving schools.

**Sections 31 – 33: Development of Special Education Strategic Plan**

Section 31 would require AOE to submit a report to the House and Senate Committees on Education, the House Committee on Ways and Means, and the Senate Committee on Finance by September 1, 2025, on the factors contributing to growth in extraordinary Special Education costs.

Section 32 would require AOE to develop a three-year strategic plan on Special Education in consultation with the State Advisory Panel on Special Education. The strategic plan would have to include unambiguous measurable outcomes, a timeline for implementation, and be designed to ensure successful implementation of Act 173 (2018)<sup>9</sup>. It must also outline the supports and processes necessary for the transition to a weighted funding formula for Special Education to succeed, including a suggested transition timeline and benchmarks for success.

The plan would have to be submitted on or before December 1, 2025. On or before January 15 of 2026, 2027, 2028, and 2029, AOE would be required to submit a detailed update on the strategic plan's implementation and any recommendations for legislative changes needed to ensure a successful transition to a weighted funding model and continued successful implementation of Act 173.

Section 33 would establish one new permanent, classified position at AOE to support the development and implementation of the strategic plan. \$150,000 is appropriated from the General Fund to AOE in fiscal year 2026 to fund this position.

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<sup>7</sup> Section 6 of the bill outlines the referenced rules.

<sup>8</sup> Sections 34 and 35 of the bill outline the base amount and the pupil weights.

<sup>9</sup> Act 173 of 2018:

[https://legislature.vermont.gov/Documents/2018/Docs/ACTS/ACT173/ACT173%20As%20Enacted.pdf?\\_gl=1\\*lk496\\*\\_ga\\*Nz\\_QyOTcxNDM5LjE3Mjk1MTg4OTI.\\*\\_ga\\_V9WQH77KLW\\*MTa0NDA0MTAwNC4xNjgyMCA4xNzQ0MDQxMDA2LjAuMC4w](https://legislature.vermont.gov/Documents/2018/Docs/ACTS/ACT173/ACT173%20As%20Enacted.pdf?_gl=1*lk496*_ga*Nz_QyOTcxNDM5LjE3Mjk1MTg4OTI.*_ga_V9WQH77KLW*MTa0NDA0MTAwNC4xNjgyMCA4xNzQ0MDQxMDA2LjAuMC4w)

## Sections 34 – 56: The Establishment of the New Education Finance Formula and Restructure the Statewide Property Tax

Sections 34 through 56 would repeal most of Vermont's statewide education finance formula and establish a new funding formula and statewide property tax structure. Unless otherwise noted, these sections will take effect on July 1, 2029, provided that the new school districts contemplated in the bill have assumed responsibility for the education of all resident students.

**Effective July 1, 2029, sections 34 through 56 would establish a new statewide education funding formula and restructure the statewide education property tax.**

In the new funding formula, school districts would receive an "Education Opportunity Payment," which would be calculated by multiplying the base amount by a district's weighted long-term membership (WLTM). Eligible districts would also receive sparse school district grants reflecting the enrollment of public schools in the district, and small school grants for schools that are "small by necessity."

Statewide education property taxes would continue to fund the Education Fund. Amending current law, this bill would separate property tax classes into four categories that could be charged different education property tax rates in the future. As included in the bill, all classes would have a uniform tax rate. The current-law property tax credit would be repealed and replaced with an income-based homestead exemption.

School districts would be permitted to spend above their education opportunity payment if approved by local voters, referred to as "supplemental district spending." This would be raised through a local supplemental district spending tax rate that would be calculated in a manner so that all districts could raise the same amount above the foundation formula at the same rate, regardless of their property wealth. This equalization of taxing capacity would result in excess revenues for school districts with greater tax capacity. Those excess revenues would be "recaptured" and held in a reserve for eventual deposit in the School Construction Aid Special Fund.

**The fiscal impact of these changes is unclear and will be impacted by multiple outstanding policy decisions and future demographic and economic changes.**

### Sections 34 and 35: Weighted Long-Term Membership (WLTM) and Education Opportunity Payments

Sections 34 and 35 would repeal current-law pupil weights and the definitions of "education spending" and "per pupil spending."

Section 34 includes a base amount of \$15,033 per pupil. The base amount would be adjusted for inflation annually. The base amount would be used to calculate the education opportunity payment, by multiplying it by a school district's WLTM.

Under current law, pupil weights are applied to each district's Long-Term Membership (LTM) to account for potentially higher costs associated with differing demographic and district circumstances. In Vermont's current-law funding formula, these weights are "tax capacity" weights meaning they impact the amount of funding a school district can raise at a specific tax rate, rather than the amount of funding a school district receives. In the funding formula changes in the bill, the pupil weights established in Section 35 would be foundation formula weights and *would* impact the amount of funding a school district received.

Section 35 would repeal all current-law pupil weights and establish new pupil weights used in the calculation of WLTM. It would also repeal certain weighting categories in current law, amend certain weighting categories,

and add new weighting categories. The pupil weights included in the bill would be foundation formula weights that would be applied against the base amount and would be used to determine the amount of funding a school district receives through its education opportunity payment. Like current law, the weights would be additive.

Specifically, the bill repeals weights applied to grade levels, sparse districts, and small schools. The bill amends weights applied to English Learner (EL) pupils, and students from economically disadvantaged backgrounds. The bill adds weights for special education, identified for children with a disability, and distinguishes between categories of disabilities according to cost<sup>10</sup>.

Table 2 outlines the pupil weighting categories and pupil weights that would be used in the foundation formula.

**Table 2: Pupil Weighting Categories and Weights in H.454**

General Pupil Weighting Category	Specific Pupil Weighting Categories <sup>11</sup>	Additional Weighting Amount
<b>English Learner (EL)</b> <i>(Across levels, English language proficiency weights are mutually exclusive. Newcomer or SLIFE weights are additive to level weights)</i>	English language proficiency – Level 1	2.11
	English language proficiency – Level 2 or 3	1.41
	English language proficiency – Level 4	1.20
	English language proficiency – Level 5 or 6	0.12
	Newcomer or SLIFE	0.42
<b>Child with a disability</b> <i>(Across costs, disability weights are mutually exclusive)</i>	Disability identified as low-cost	0.79
	Disability identified as medium-cost	1.35
	Disability identified as high-cost	2.49
<b>Students from economically disadvantaged backgrounds</b>	Family at or below 185 percent of Federal Poverty Level (FPL)	1.02

Section 35 would direct the Secretary of Education to annually determine each school district's education opportunity payment by multiplying the school district's WLTM by the base amount.

This section would also require consensus recalculation of the base amount, including any inflationary measures, every five years by AOE and JFO.

The fiscal impact of this section is unclear for multiple reasons, including data limitations and outstanding policy decisions. Future district configurations are still to be determined, and education opportunity payments would be calculated based on district-specific parameters. Further, this funding change would not be implemented until fiscal year 2030, and future pupil demographics and characteristics cannot be estimated at this time.

### **Section 36, 39, and 40: Technical Amendments**

These sections would repeal pieces of the current-law funding formula and make technical amendments to align statute with the new funding formula.

Section 36 would amend statute to direct the General Assembly to annually appropriate education opportunity payments, small schools and sparsity grants, and supplemental district spending to school districts.

The fiscal impact of this section is dependent on the calculation of the education opportunity payments, small school and sparsity grants, and supplemental district spending.

<sup>10</sup> Section 42 of the bill repeals the Special Education census block grant when the weights for students with disabilities come into effect.

<sup>11</sup> Section 35 of the bill includes definitions for each of these specific weighting categories.



**Section 37: Support Grants for Necessary Small Schools and Sparse School Districts**

Section 37 would establish support grants for small schools and sparse school districts.

Section 6 of this bill charges the State Board of Education with creating standards for determining schools that are “small by necessity.” Districts with schools that are small by necessity in accordance with these standards would receive a small schools support grant as established in this section. The small schools support grant would be calculated by multiplying the two-year average enrollment of an eligible small school by \$3,157 adjusted for inflation annually. This small school grant would be paid to the district.

If a district has a population of less than 55 people per square mile, it would receive a sparsity grant. The sparsity grant would be calculated by multiplying the two-year average enrollment of all public schools in the district by \$1,954, adjusted for inflation annually. The sparsity grant would also be paid to the district.

The fiscal impact of this section depends on outstanding policy decisions, including the standards for determining small by necessity schools and district configurations.

**Section 38: Education Fund Revenues**

Section 38 would amend the Education Fund revenue sources to include revenue from the supplemental district spending tax outlined in Sections 46 and 47 of the bill.

**Section 41: Ballot Language for Supplemental District Spending**

Section 41 amends ballot language to align with the new funding formula and what is voted on locally. As outlined in Sections 46 and 47, school districts are permitted to spend more than what is allocated to them by the State if the spending is approved by local voters – supplemental district spending. Section 41 outlines the ballot language for votes on supplemental district spending.

The fiscal impact of the section is unclear. JFO cannot estimate if or how this ballot language may impact local voting decisions on supplemental district spending.

**Section 42: Repeal of Special Education Census Block Grant**

Section 42 would repeal education finance provisions of current law that would no longer be applicable in the new funding formula.<sup>12</sup>

Section 42 would also repeal the Special Education census block grant in 16 V.S.A. § 2961 on July 1, 2029, the effective date for the implementation of the weights for students with disabilities. This reflects a shift in the calculation for funding of students receiving Special Education.

In fiscal year 2026, the Special Education census block grant from the Education Fund is estimated to be approximately \$270 million. JFO assumes the cost of the grant in fiscal year 2030 will be greater than in fiscal year 2026. Its repeal must be considered along with the implementation of Special Education funding through pupil weights for children with a disability.

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<sup>12</sup> Specifically related to unorganized towns and gores and the suspension of excess spending penalty, hold harmless provision and the associated ballot language requirements.

### Section 43: Supplemental District Spending Reserve

Section 43 would establish the “Supplemental District Spending Reserve” within the Education Fund. This reserve is funded through recapture, as outlined in Section 43 and defined in Section 46.<sup>13</sup>

The Reserve would be used by the Commissioner of Finance and Management in cases when a district’s supplemental district spending tax does not raise enough to fully cover its supplemental district spending.<sup>14</sup>

At the close of a fiscal year and after ensuring all districts receive the appropriate supplemental district spending, all funds remaining in the Reserve would be deposited into the School Construction Aid Special Fund.

The fiscal impact of the Reserve and the amount it contributes to the School Construction Aid Special Fund will depend on future district configurations, including taxing capacity and spending decisions.

### Sections 44 and 45: Reports

Sections 44 and 45 would require three reports from AOE and JFO by December 15, 2025.

Section 44 would require AOE to submit a report about transportation and the transportation reimbursement grant.

Section 45 would require JFO to submit a report analyzing inflation indices to be used in Vermont’s education funding system. It would also require JFO to submit a report regarding PreK education, the Child Care Financial Assistance Program (CCFAP), and any other early care and learning systems.

This section is estimated to have no estimated fiscal impact.

### Sections 46 and 47: Statewide Education Property Tax and Supplemental District Spending Tax Rate

Sections 46 and 47 would repeal many current-law calculations and make adjustments to education property tax calculations. These sections would implement new structures for the statewide education property tax and a supplemental district spending tax rate.

Under the proposed structure, the General Assembly would annually set a statewide education property tax rate at a level sufficient to ensure the Education Fund is fully funded after accounting for non-property tax revenue sources.

There would be four tax classifications for the education property tax – Homestead, Nonhomestead Apartment, Nonhomestead Nonresidential, and Nonhomestead Residential. Each would have a factor in statute that would adjust the statewide education tax rate for that class. As currently drafted, all classes would have a factor of one, meaning the statewide education property tax rate would be uniform across all classes.

Under the new funding formula, school districts have the option for voters to approve supplemental district spending. Upon approval, a school district would be permitted supplemental district spending up to 10% of its Education Opportunity Spending of the same fiscal year<sup>15</sup>.

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<sup>13</sup> Recapture refers to revenues raised through the supplemental district spending tax that are greater than the district’s supplemental spending.

<sup>14</sup> This situation is only anticipated to result from calculations based on incomplete data, faulty assumptions, or any miscalculations.

<sup>15</sup> Interstate districts are exempt from the 10% cap of supplemental district spending.

Supplemental district spending would be raised through a local supplemental district spending tax rate. This rate would be calculated in a manner so that all school districts could raise the same amount above the foundation formula at the same tax rate, regardless of their property wealth. As a result, the rate would be set so that all districts have the same taxing capacity as the district with the lowest property wealth.

Specifically, the supplemental district spending tax rate would be calculated by dividing a district's per pupil supplemental district spending by the supplemental district spending yield. This yield would be calculated as the amount of property tax revenue per LTM that would be raised in the school district with the lowest taxing capacity at a rate of \$1 per \$100 of equalized education property value<sup>16</sup>. Outlined in Section 43, revenue raised from the supplemental district spending tax rate above the approved supplemental district spending would go to the Supplemental District Spending Reserve.

Like the collection of education property taxes under current law, this bill includes that municipalities may retain 0.00225% of the tax collected to cover the administrative costs of tax collection on behalf of the State.

The fiscal impact of these sections is unclear and will depend on outstanding policy decisions including district configurations and supplemental district spending decisions.

#### **Section 48: December 1 Letter**

Section 48 would amend the required contents of the December 1 letter to reflect the new education funding formula. The December 1 letter would have to include the statewide education property tax rate, the supplemental district spending yield, and school district specific data. This would allow school districts to understand the estimated upcoming tax rate, as well as calculate a supplemental district spending tax rate at any level of supplemental district spending.

This section has no direct fiscal impact.

#### **Section 51 – 52: Homestead Exemption**

Sections 51 and 52 would repeal the statewide education property tax credit and implement a homestead property tax exemption based on household income. The municipal property tax credit would remain unchanged.

The homestead exemption would exempt a certain portion of a claimant's housesite value from the homestead property tax. All else equal, this would decrease the overall tax liability for a household by decreasing the property value that the tax rate would be applied to. Table 3 shows the structure of the homestead exemption. Household income groups listed in the table and the bill are in fiscal year 2025 amounts but would be adjusted for inflation.

The fiscal impact of these sections is unclear and depends on outstanding policy decisions, as well as changes to Grand List values and household incomes between fiscal years 2025 and 2030.

Preliminary modeling using fiscal year 2025 data estimates the homestead exemption would cost approximately \$45 million more than the current-law fiscal year 2025 property tax credit. Absent any other changes in policy, this increased cost would require an increase in property taxes overall.

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<sup>16</sup> The district with the lowest taxing capacity is defined as the school district anticipated to have the lowest aggregate equalized education property tax grand list of its municipal members per LTM.

**Table 3: Homestead Exemption in H.454**

Fiscal year 2025 household income	Exemption on the claimant's housesite value
\$0 - \$25,000	95%
\$25,000 - \$47,000	90%
\$47,000 - \$50,000	80%
\$50,000 - \$60,000	70%
\$60,000 - \$70,000	60%
\$70,000 - \$80,000	50%
\$80,000 - \$90,000	40%
\$90,000 - \$100,000	30%
\$100,000 - \$110,000	20%
\$110,000 - \$115,000	10%

**Section 53: Homestead Declaration Form**

Section 53 would require the Department of Taxes to suggest changes to the homestead declaration form for the purposes of implementing the homestead exemption.

There is no estimated fiscal impact of this section.

**Sections 58 and 59: Evidence Based Foundation Formula**

Contingent on a number of aspects outlined in the bill, Sections 58 and 59 would adjust the foundation formula amounts from a cost-factor amount (as included in Sections 34 and 35 of this bill), to an evidence-based amount. The bill does not include evidence-based amounts, and only includes placeholders.

The fiscal impact of this section would depend on the numbers included in the evidence-based foundation formula, as well as other outstanding policy decisions.

**Section 61: Property Classifications**

Section 61 would establish four property tax classifications: “Homestead, Nonhomestead Apartment, Nonhomestead Residential, and Nonhomestead Nonresidential.”<sup>17</sup> This section would require all property on the Grand List to be assigned at least one of these classifications. These property tax classifications align with the statewide property factors outlined in the classification of each property. There would be one tax rate, while each of the four property classifications would have a factor multiplied against this tax rate. As currently drafted, each classification’s factor is “1.0”.

The overall fiscal impact of this section is unclear. According to the Department of Taxes, there may be costs including software revisions and the need for new positions to support the work of implementing this section; additional analysis is required to determine additional costs.

**Sections 62 – 64: Regional Assessment Districts**

Section 62 would establish 12 Regional Assessment Districts. The member municipalities of each Regional Assessment District would be required to contract jointly with one or more third parties to conduct full reappraisals of their grand lists every six years.

The Director of Property Valuation and Review (PVR) would be required to establish standard guidelines and procedures, and could adopt rules, for Regional Assessment Districts. The Director would also be required to establish a reappraisal schedule for each Regional Assessment District, which they could alter for a particular

<sup>17</sup> Section 61 includes definitions of these categories.

district or for one or more of its member municipalities if necessary.

Section 64 would require the Department of Taxes, in consultation with relevant stakeholders, to submit recommendations to the House Committee on Ways and Means and the Senate Committee on Finance on the implementation of Regional Assessment Districts by January 15, 2026.

The estimated fiscal impact for these sections cannot be estimated. If this section increases the frequency of reappraisals, additional costs may occur in future years. If this section increases efficiency of reappraisals, there may be savings.

### **Sections 65 – 90: Grand List Assessment Date**

Sections 65 through 90 amend the Grand List assessment date from April 1 to January 1.

This section is estimated to have a de minimis impact. The Department of Taxes has not estimated a fiscal impact and needs further time to review potential administrative costs associated with this change.

### **Section 92: Minimum Threshold for Tax Sale**

Section 92 proposes to add a provision to statute to require a \$1,500 minimum amount of tax debt for town or municipal tax collectors to begin the tax sale process. This is consistent with a recommendation of the Act 106 (2024) Working Group on Vermont's Abatement and Tax Sale Processes, which was created "to assess how Vermont may balance fairness for delinquent taxpayers with the needs of municipalities."<sup>18</sup>

This provision would protect delinquent property owners who owe relatively small amounts of tax debt (e.g., mobile homes, camps, lots) from the possibility of tax sale. There is no minimum amount in current law, which has led to inconsistent treatment of nominal tax delinquencies among towns.

Due to data limitations, the fiscal impact of this section cannot be forecasted but is likely to be minimal due to the relatively small amounts and narrow scope of applicability involved – most towns do not currently initiate tax sales over such small amounts.

### **Section 93: Property Valuation Hearing Officer Compensation**

Section 93 would update the pay for property valuation hearing officers. Current law sets this pay at a sum not to exceed \$150 per day wherein hearings are held. This section would change the pay to \$38 per hour plus a cost-of-living adjustment in an amount equal to any adjustment approved for exempt employees by the Secretary of Administration. This provision would apply to three to four part-time hearing officers in any given year, at an additional cost of approximately \$20,000. The Department of Taxes has factored this expense into its operating budget.

### **Section 94: Technical Correction to Property Tax Credit Late Fees**

This section would make a conforming correction to remove a reference to a \$15 late fee on property tax credit claims that was previously repealed by Act 144 (2024). As this would align a section of statute to current practice, it would have no fiscal impact.

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<sup>18</sup> <https://legislature.vermont.gov/assets/Legislative-Reports/Act-106-2024-Report-Tax-Abatement-and-Tax-Sales.pdf>



## Appendix 1: Summary of Effective Dates

<b>(a) On Passage</b>		
Findings and Intent	Sec. 1; Findings, Intent, Plan	
Commission on the Future of Public Education	Sec. 2; Updates to the commission	
Adult Education Funding	Sec. 29, 30; Adult Education Funding and Report	
State Funding of Public Education	Sec. 44, 45; Transportation Reimbursement Guidelines, JFO Reports on Inflation and PreK	
Statewide Property Tax Credit; Homestead Exemption	Sec. 53; Homestead Declaration Sample Form	
Property Classification	Sec. 61a; Tax Classification Data, Transition	
Transition to Regional Assessment Districts	Sec. 63, 64; Regional Assessment District (Transition), Reports, Working Group	
Miscellaneous Tax	Sec. 91, 92, 94; Technical Correction, Minimum Tax for Debt Sales, Property Tax Credit Late Fee	
Effective Dates	Sec. 95; Effective Dates	
<b>(b) July 1, 2025</b>		
Scale	Sec. 3, 6, 7; Scale, SBE Rules and Report, School Size Intent	
Tuition	Sec. 8, 18, 19; School Closure Tuitioning Requirements, Transition	
School Construction	Sec. 11,12; School Construction Advisory Board	
Statewide Cohesion	Sec. 20, 21; Statewide Cohesion Intent, Calendar, Graduation Requirements Report	
State-Level Governance	Sec. 22-26; State Board	
Special Education	Sec. 31-33; Special Education Report, Plan and Position	
Miscellaneous Tax	Sec. 93; PVR Hearing Officer Pay	
<b>(c) July 1, 2026</b>		
Scale	Sec. 4,5; Class Size Minimums	
School Construction	Sec. 9,10,13-17; School Construction Program, Fund	
<b>(d) July 1, 2028</b>		
Education Property Tax Rate Formula	Sec. 48; December 1 Letter	
<b>(e) July 1, 2029</b>		
Property Classification	Sec. 60, 61; Updates to Property Classification	
<b>(f) July 1, 2019 - contingent on new school districts</b>		
Tuition	Sec. 27, 28; Tuition Calculations, Repeals	
State Funding of Public Education	Sec. 34-43; Transition to a Cost Factor Funding Formula	
Education Property Tax Rate Formula, Statewide Property Tax Rate	Sec. 46-50; Statewide Education Tax, Supplemental District Spending Tax	
Statewide Property Tax Credit Repeal; Homestead Exemption Created	Sec. 51,52; Property Tax Credit Report	
Conforming Revisions; Property Tax Repeal	Sec. 54-56; Creation of Homestead Exemption	
Future Review of Foundation Formula	Sec. 57; Education Fund Advisory Committee; Review of Foundation Formula	
<b>(g) July 1, 2030</b>		
Regional Assessment Districts	Sec. 62; Regional Assessment Districts (Establishment)	
Grand List Assessment Date	Sec. 65-90; Move Grand List Assessment Date to January 1	
<b>(h) Upon development and review of an evidenced based foundation formula; compliance with school class and building sizes, EQS, and MTSS implementation<sup>19</sup></b>		
Future Review of Foundation Funding Formula	Sec. 58, 59; Transition to an Evidenced Based Foundation Formula	

<sup>i</sup> The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.

<sup>ii</sup> Relevant modeling and slide decks can be found on JFO's website at the following link: <https://ljfo.vermont.gov/subjects/education/h-454-education-transformation-bill-materials>

<sup>19</sup> EQS is an abbreviation for "Education Quality Standards;" MTSS is an abbreviation for "Multi-Tiered Systems of Support."